

# 2012 Economic Impact Study

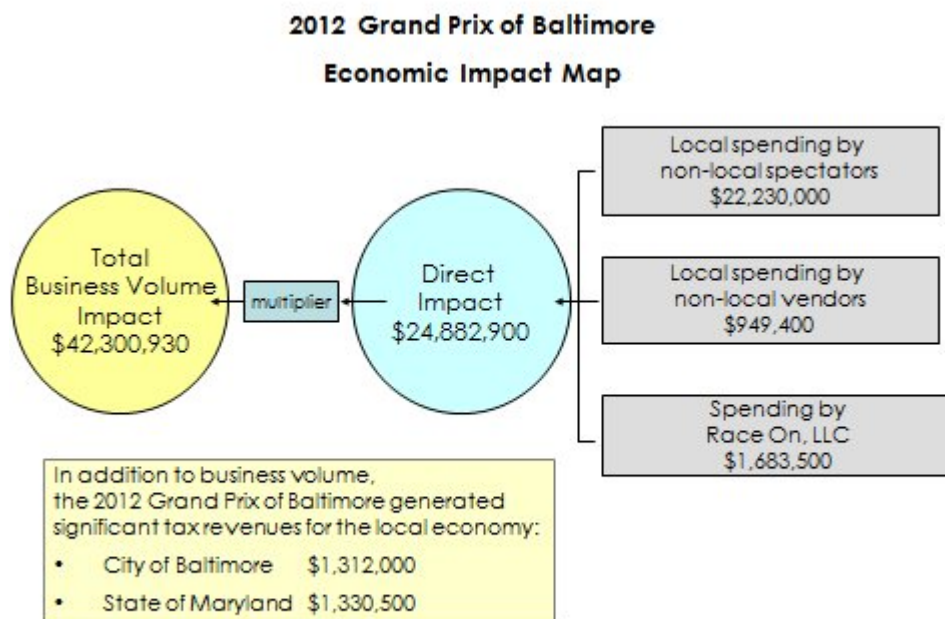


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## Summary

Over 131,000 spectators filled the stands to watch the IZOD IndyCar Series in the streets of downtown Baltimore, August 31<sup>st</sup> to September 2<sup>nd</sup>, 2012. On these dates, Charm City's restaurants, hotels, retailers, attractions, transportation and parking vendors all gained substantial revenue brought on by the 2<sup>nd</sup> annual Grand Prix of Baltimore.

The total economic impact of the 2012 Grand Prix of Baltimore is estimated at \$42.30 million. The direct impact generated in the Baltimore economy attributable to the Grand Prix is \$24.88 million. The local economy is further expanded as the direct business revenue ripples through the economy (referred to a multiplier effect) generating an additional \$17.54 million in indirect impact. The following graph illustrates the impact of the 2012 Grand Prix of Baltimore and includes the categories of direct spending and tax revenues allocable the racing event.



## Background of the Study

Forward Analytics was contracted by Race On, LLC "Race On" to measure the economic impact of the 2012 Grand Prix of Baltimore on the local economy. Race On financed and promoted the 2<sup>nd</sup> annual motor sports event that raced through the streets of downtown Baltimore.

When a community undertakes to host a major sporting event like the Grand Prix, the aim is clearly towards the benefits including; increased visibility, enhanced community cohesion, and positive revenue generation. However, there are often public concerns about the use of taxpayers' dollars and various social impacts, such as congestion and crowding, which may color the public's perceptions. And in this case, numerous Baltimore residents, businesses, government officials, and the media opposed the inaugural Baltimore Grand Prix and were skeptical of the 2<sup>nd</sup> annual Grand Prix.

Last year's inaugural Grand Prix was so costly and perhaps mismanaged that the former race organizers, Baltimore Racing Development, were unable to pay their expenses to event vendors and to the City. A new group, Downforce Racing, was then hired to resuscitate the Grand Prix in 2012 but missed deadlines for the event and lost their contract. Race On was formed with an interest to save the race by financing it with private monies. The company's proposal included upfront payments to the City of Baltimore for expenses incurred. And payment for the 2012 admissions and amusement taxes were held in escrow. Race On, partnering with Andretti marketing, was awarded the right to conduct the Grand Prix event in Baltimore only 109 days before the 2012 race was scheduled, August 31 through September 2.

The 2012 Race was successfully planned and smoothly executed within a 90-day window, even though it was promoted in face of lingering public doubt as to whether the 2012 Race would actually be run, and faced intense scrutiny based on legacy issues from its inaugural running. Events of this nature normally require at least one year to properly plan and promote. Despite these considerable hurdles, the 2012 Race received much praise for being run with great professionalism and few, if any, major operating stumbles. Please note, Race On has paid all financial obligations, including vendor and government fees, for the 2012 Race.

There are no assumptions, modifications, gross-ups or other adjustments made in the following economic impact report to account for the effects of a severely truncated planning and marketing period for the 2012 Race. Though no adjustments were made in this report to reflect these circumstances, any reader hereof should evaluate the data set forth herein in the context of the above noted factual elements that impacted the 2012 Race results. Race On intends to grow the economic impact of the Grand Prix given more time to plan and execute the event in the years to come.

## Framework of the Economic Impact Measure

Forward Analytics impact studies employ a linear cash flow methodology first developed by Cafferty & Isaacs for the American Council on Education. The Cafferty & Isaacs methodology is the most widely-used impact study tool and has been used throughout the United States in impact analyses for both profit and not-for-profit organizations, corporations, institutions and events. The linear cash flow model measures the impact of money brought into the economy from outside sources attributable to the event. This "fresh dollar" approach represents a true expansion of the economy, and does not track dollars that already exist within the economy.

The model also takes into account the re-spending of money within the economy as a result of what professional economists term "the multiplier effect". The multiplier effect measures the circulation of dollars originally attributable to an event, and tracks their spending by successive recipients until the funds eventually leak out of the economy.

The impact analysis measures the direct and indirect business volume and government revenues attributed to an event. Our economic impact models are constructed in a way that makes calculating the derived impact a relatively easy adjustment, according to the number of attendees, number of vendors, etc. The model can be updated annually taking inflation into account.

## The Methodology

Forward Analytics conducted an economic impact study for the inaugural 2011 Baltimore Grand Prix. The methodology of the study utilized survey research that measured actual

revenue generated in the Baltimore economy by three unique groups: 1. race spectators, 2. vendors/exhibitors of the Grand Prix, and 3. the race organizers. The 2012 Race impact report also measures direct revenue by three categories as mentioned above. The following outline describes our approach:

### 1. Spending by Race Spectators

In 2011, Forward Analytics performed in-person interviews with a random sample of race spectators (457 in total). The line of questioning asked respondents to provide their actual spending in Baltimore attributable to the Grand Prix, specifically at local restaurants, hotels, retailers, attractions, and transportation. The results of the survey generated an unbiased measure of economic impact.

Forward Analytics was contracted by Race On to conduct an economic impact study of the 2012 Grand Prix of Baltimore after race weekend. Because of this, Forward Analytics was not able to perform survey research to question spectators on their actual spending attributable to this year's race. Consequently, the impact analysis of the 2012 Grand Prix of Baltimore incorporates spectator spending figures provided by 2011 audience survey research.

Nevertheless, the 2012 impact analysis utilizes ticket transactions for the 2<sup>nd</sup> annual Grand Prix to determine the number of spectators, or tickets sold, and the ZIP code of purchases, providing geospatial distributions (local vs. nonlocal). These transactions account for sales made via internet, phone, ticket center, IVR, client kiosk, Living Social, and box offices.

Ticket transactions revealed that the 2012 Grand Prix of Baltimore attracted an estimated 131,500 spectators over the three-day race weekend. Fifty-eight percent of these spectators traveled from outside the Baltimore Metropolitan area to experience the 2<sup>nd</sup> annual race through the streets of Inner Harbor and downtown neighborhoods. This figure includes 37.2% of spectators who reside outside of Maryland. Ticket sales to nonlocal spectators represents 64% of total ticket sales revenues equally an estimated \$2.88 million. Economic impact generally measures new money brought into the economy by non-local audiences.

### 2. Spending by Grand Prix Vendors

Grand Prix vendors also generated revenue for the City of Baltimore. In taking part in the event, vendors purchased products and services. Their expenditures included food, supplies, materials and equipment for building and equipping their temporary operations, transportation, advertising, printing, giveaways, public relations, etc. Non-local vendors spent additional dollars on hotel accommodations, as well as food, retail and entertainment, and other travel expenses. In 2011, a 3-page survey was completed by a sample of non-local Grand Prix vendors providing spending data necessary for the economic impact study. The 2012 impact study incorporates these spending figures but adjusts the model for this year's number of vendors and their geospatial distribution.

### 3. Spending by Race Organizers

Forward Analytics economic impact studies require a comprehensive input/output impact questionnaire to be completed by the event organizers. Race On and their CPA firm reported back an outline of income sources as well as a detail of expenditure levels and geo-spatial distribution (spending locally vs. non-locally).

## The Economic Impact Assessment

### Local Business Volume Revenues Allocable to the 2012 Grand Prix

The total business volume impact of the 2012 Grand Prix of Baltimore is estimated at \$42,300,930 for the weekend long racing event. This year's Grand Prix increased the local business volume by \$24,882,900 in direct impact and \$17,543,230 in indirect impact. Government revenues generated as a result of the 2012 Grand Prix are calculated at \$2,642,500. It should be noted that, at the time of reporting, Race On has paid all 2012 Grand Prix financial obligations, including vendor fees and government taxes.

#### Revenues Generated by Race Spectators

The economic impact of a special event is largely a function of the spending made by the visitors. As previously indicated, the 2012 Grand Prix of Baltimore attracted an estimated 131,500 spectators over the three-day race weekend. Fifty-eight percent, or 76,300 spectators, traveled from outside the Baltimore Metro area and spent money at local restaurants, hotels, retail outlets, attractions, etc. The direct impact of non-local spectators is estimated at \$22.23 million generated in the City of Baltimore. The following chart presents a breakdown of revenues.

Food and drinks in restaurant	\$4,420,000
Retail	\$3,120,000
Hotel Accommodations	\$7,230,000
Tourist attractions	\$1,600,000
Nightlife	\$2,890,000
Transportation and Parking	\$2,970,000
<b>Direct Impact of Spectator Spending</b>	<b>\$22,230,000</b>

#### Revenues Generated by Grand Prix Vendors

The direct impact of non-local vendors on the City of Baltimore economy was \$969,400. The aggregate spending for the cost of services, products and goods increased the City's economy by \$844,200. Travel costs for non-local vendors to participate in the Grand Prix generated \$125,200 for the City. Vendors generated \$47,900 while staying at local hotels (included in total travel costs.)

#### Revenues Generated by Race On

Lastly, the operating expenditures of Race On, the Grand Prix organizers, are considered. Race On discloses that an estimated \$1.58 million of their operating budget was spent on businesses and organizations operating in the City of Baltimore. Another \$105,000 was spent with businesses in Baltimore County. Operating expenditures include the purchase of goods and professional services from local businesses for marketing and PR, signage,

construction, building supplies, landscaping, professional services, hospitality, to name a few.

Race On's operating budget came largely from private funding. In addition, an estimated \$824,000 of the budget came from sponsors and vendors headquartered outside of the state of Maryland. Sales revenues (and consequently spending) included ticket or admission costs. Again, based on sales transactions reports, 64% of ticket revenues came from nonlocal spectators. Ticket sales generated an estimated \$2.88 million, whereas approximately \$1.85 million came from nonlocal spectators. This represents new dollars that, in turn, generated direct and indirect revenue for the City of Baltimore.

#### Local Government Revenues Allocable to the 2012 Grand Prix of Baltimore

In addition to the direct and indirect revenues received by local businesses and organizations, the Grand Prix generated substantial tax revenues for the City of Baltimore and State of Maryland. The City of Baltimore gained an estimated \$1.31 million as a result of the 2012 Grand Prix. The State of Maryland received an estimated \$1.33 million in tax revenues due to the Grand Prix. The government revenue impacts allocable to the 2012 Grand Prix comprise the following:

##### Sales & Use Tax

When an event brings people and an influx of money into the area, tax revenues are generated for local and state governments. Sales and use tax revenues were paid directly by race spectators on purchases such as retail, food and drinks, overnight lodging, and parking. Grand Prix-related direct spending by spectators generated \$1.11 million in sales tax revenues for the State of Maryland. Race On paid the state of Maryland \$28,900 in sales use taxes attributable to Grand Prix ticket sales.

##### Hotel Tax

Research determined that an estimated \$7.23 million was spent by Grand Prix spectators at Baltimore's hotels and motels. Grand Prix vendors generated an additional \$47,900 for the hotel industry. Consequently, Baltimore City received an estimated \$545,890 in hotel tax revenues attributable to the racing event.

##### Admissions & Amusement Tax

The admissions and amusement tax is a local tax imposed on the gross receipts from admissions at events like the Grand Prix. Race On paid the City of Baltimore \$288,300 in A&A taxes.

##### Fees & Permits

While the Grand Prix attracted thousands of people to downtown Baltimore who spent millions of dollars during their stay, the event cost the city money for policing, public works, and permitting. In a timely fashion, Race On afforded to compensate for much of these services providing \$477,800 to the City of Baltimore for fees and permits, including an estimated \$350,000 paid to Baltimore City Services, and \$59,000 to Baltimore City Parking Authority. The Grand Prix paid \$190,100 to the state of Maryland for fees and permits.

## The Economic Impact of Volunteers

Volunteers were an integral part of the 2012 Grand Prix of Baltimore, as they are in many facets of the community. Their involvement enhanced the scale of the event and enabled more activities to be undertaken. This, in turn, benefited the local businesses by helping to draw visitors and dollars to the region.

Race On rallied 545 spirited volunteers who helped make this year's Grand Prix a success. The majority of volunteers committed at least three 7-1/2 shifts, although many worked for more than 22-1/2 hours leading up to and during race weekend. Over the three-day event, volunteers provided services including: guest relations, hospitality, shuttle, transportation, and delivery, ticketing, etc. They donated an approximate 12,000 volunteer work hours.

Estimating the exact dollar amount is less critical than the notion that those who volunteered their time could have spent it in many ways but decided this event was of key importance and worth donating their time. If the total of 12,000 volunteer hours is calculated at the government dollar value of a volunteer hour (2011), an estimated \$273,240 is donated in time to the Grand Prix, the City of Baltimore and its residents.

## Community Impacts of the 2012 Grand Prix of Baltimore

While the Grand Prix of Baltimore produces a greater quality of life and a substantial economic impact for the City of Baltimore, it's also important to show the social impact of the event. Race On provided a total of \$50,000 to various community groups in neighborhoods that were affected by the race. These community groups included: Kennedy Krieger Institute, Ulman Cancer Fund, Living Classroom, Ridgley's Delight Association, Inc., Harborwalk Town House Association, Inc., Harborway East Condo Association, Harborway Condo Association, Otterbein Community Association, Inc., Federal Hill Neighborhood Association, Inc., Federal Hill Neighborhood Association, Inc., Sharp-Leadenhall Planning Council, Inc., Federal Hill Main Street, Inc., and Harbor Court Condo Association.

The 2012 Grand Prix also generated funds that were critical in keeping Baltimore City Fire Truck 10 open. The fire company was set to shut down due to budget cuts when taxes money and revenues from the Grand Prix were used to pay Truck Company 10's operation through the fiscal year.

The 2012 Grand Prix of Baltimore generated significant economic impact for the City of Baltimore and the State of Maryland. While this year's Grand Prix was planned and marketed in only 90 days, revenues generated will likely be larger given more time to prepare for a race of this size and stature.

Based on the findings of our impact study, Forward Analytics concludes that the governments of the City of Baltimore and state of Maryland should consider the Grand Prix of Baltimore to be a significant investment opportunity for public monies. It is an investment which provides high yield, measurable returns for local government on a tax revenue basis alone. When compounded with additional highly positive economic and social benefits for the communities, the Grand Prix represents one of the best returns for government funding. And to add, the Grand Prix puts downtown Baltimore on the map for a vibrant place live, work and visit.